U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 000-51080

CHEMOKINE THERAPEUTICS CORP.

(Name of small business issuer in its charter)

Delaware	**33-0921251**
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)
6190 Agronomy Road, Suite 405 **University of British Columbia** **Vancouver, British Columbia**	**V6T 1Z3**
(Address of principal executive offices)	(Zip Code)

(604) 822-0301

(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X__ No ___

As of November 10, 2006, there were 42,183,748 shares of the issuer's common stock issued and outstanding, par value $0.001.

Transitional Small Business Disclosure Format (check one): Yes ___ No __X_

CHEMOKINE THERAPEUTICS CORP.
SEPTEMBER 30, 2006, QUARTERLY REPORT ON FORM 10-QSB

INDEX

PART I

ITEM 1. FINANCIAL STATEMENTS

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

INDEX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

INTERIM CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. dollars)

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,417,759	$ 3,719,163
Investments	5,790,233	2,627,760
Amounts receivable	77,609	33,214
Prepaid expense and deposits	58,747	154,969
TOTAL CURRENT ASSETS	8,344,348	6,535,106
PROPERTY AND EQUIPMENT	377,279	351,438
LICENSE	18,222	23,993
DUE FROM AFFILIATE (Note 5)	–	91,783
	$ 8,739,849	$ 7,002,320
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 228,750	$ 253,199
Due to affiliate (Note 5)	411,504	–
Current portion of capital lease obligation	12,716	11,648
TOTAL CURRENT LIABILITIES	652,970	264,847
CAPITAL LEASE OBLIGATION	12,402	21,157
	665,372	286,004
COMMITMENTS (Note 6)		
STOCKHOLDERS' EQUITY		
PREFERRED STOCK		
Authorized – 6,000,000 voting, participating shares; par value $ 0.001 per share		
Issued and outstanding: September 30, 2006 – Nil; December 31, 2005 – 2,000,000	–	2,000
COMMON STOCK		
Authorized – 100,000,000 voting, participating shares; par value $ 0.001 per share		
Issued and outstanding: September 30, 2006 – 42,183,748; December 31, 2005 – 31,897,206	42,184	31,897
ADDITIONAL PAID-IN CAPITAL	30,884,239	23,717,965
(DEFICIT) ACCUMULATED DURING THE DEVELOPMENT STAGE	(22,851,946)	(17,035,546)
	8,074,477	6,716,316
	$ 8,739,849	$ 7,002,320

See accompanying notes to the consolidated financial statements.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in U.S. dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,		Cumulative from inception on July 15, 1998 to September 30,
	2006	2005	2006	2005	2006
REVENUE	$ –	$ –	$ –	$ 275,000	$ 275,000
EXPENSES					
Research and development	1,464,591	1,051,986	3,900,707	2,526,187	13,853,975
General and administrative	525,351	598,743	2,215,003	1,884,613	9,564,004
Stock-based compensation	38,734	321,650	110,965	323,815	484,999
Amortization of license	1,923	1,924	5,770	5,771	32,380
Depreciation of property and equipment	53,024	16,452	127,454	27,860	300,195
Foreign exchange (gain) loss	14,643	(276,513)	(288,309)	(135,251)	(582,129)
	2,098,266	1,714,242	6,071,590	4,632,995	23,653,424
OTHER INCOME	93,938	95,721	255,190	216,139	526,478
NET LOSS	$ (2,004,328)	$ (1,618,521)	$ (5,816,400)	$ (4,141,856)	$ (22,851,946)
NET LOSS PER COMMON SHARE FOR THE PERIOD - BASIC AND DILUTED	$ (0.05)	$ (0.05)	$ (0.15)	$ (0.13)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	42,183,748	31,804,858	38,776,069	31,517,873	

See accompanying notes to the consolidated financial statements.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Period from inception on July 15, 1998 to December 31, 1998
and periods ended December 31, 1999, 2000, 2001, 2002, 2003, 2004, 2005 and September 30, 2006
(Expressed in U.S. dollars)
(Unaudited)

	Common stock		Preferred stock		Additional paid-in capital	Share subscriptions	Deferred stock compensation	(Deficit) accumulated during the development stage	Stockholders' equity
	Shares	Amount	Shares	Amount					
Inception, July 15, 1998	–	$ –	–	$ –	$ –	$ –	$ –	$ –	$ –
Issuance of common stock for cash	1	–	–	–	70,650	–	–	–	70,650
Issuance of preferred stock for cash	–	–	6,000,000	6,000	(4,800)	–	–	–	1,200
Net loss	–	–	–	–	–	–	–	(6,212)	(6,212)
Balances at December 31, 1998	1	–	6,000,000	6,000	65,850	–	–	(6,212)	65,638
Issuance of common stock and subscriptions on private placement, net of offering costs of $ 58,794	263,535	264	–	–	342,332	461,205	–	–	803,801
Issuance of warrants for consulting services	–	–	–	–	1,400	–	–	–	1,400
Net loss	–	–	–	–	–	–	–	(408,237)	(408,237)
Balances at December 31, 1999	263,536	264	6,000,000	6,000	409,582	461,205	–	(414,449)	462,602
Issuance of common stock and subscriptions on private placement, net of offering costs of $ 214,300	783,228	783	–	–	1,116,790	(461,205)	–	–	656,368
Conversion of preferred stock	6,000,000	6,000	(6,000,000)	(6,000)	–	–	–	–	–
Issuance of options for consulting services	–	–	–	–	87,968	–	–	–	87,968
Deferred stock compensation	–	–	–	–	83,500	–	(83,500)	–	–
Amortization of deferred stock compensation	–	–	–	–	–	–	32,920	–	32,920
Net loss	–	–	–	–	–	–	–	(1,020,963)	(1,020,963)
Balances at December 31, 2000	7,046,764	7,047	–	–	1,697,840	–	(50,580)	(1,435,412)	218,895
Issuance of stock for cash	–	–	150,000	150	187,350	–	–	–	187,500
Issuance of common shares net of offering costs of $ 64,585	1,280,496	1,280	–	–	1,362,532	–	–	–	1,363,812
Issuance of warrants for offering costs	–	–	–	–	17,850	–	–	–	17,850
Cancellation of stock options	–	–	–	–	(50,580)	–	50,580	–	–
Net loss	–	–	–	–	–	–	–	(1,743,962)	(1,743,962)
Balances at December 31, 2001	8,327,260	8,327	150,000	150	3,214,992	–	–	(3,179,374)	44,095

See next page

See accompanying notes to the consolidated financial statements

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Period from inception on July 15, 1998 to December 31, 1998
and periods ended December 31, 1999, 2000, 2001, 2002, 2003, 2004, 2005 and September 30, 2006
(Expressed in U.S. dollars)
(Unaudited)

	Common stock		Preferred stock		Additional paid-in capital	Share subscriptions	Deferred stock compensation	(Deficit) accumulated during the development stage	Stockholders' equity
	Shares	Amount	Shares	Amount					
Issuance of common stock net of offering costs of $ 194,474	1,492,970	$ 1,493	–	$ –	$ 1,677,746	$ –	$ –	$ –	$ 1,679,239
Issuance of warrants for consulting services	–	–	–	–	139,725	–	–	–	139,725
Issuance of warrants for offering costs	–	–	–	–	62,871	–	–	–	62,871
Capital distribution on sale of subsidiary to related party	–	–	–	–	42,064	–	–	–	42,064
Net loss	–	–	–	–	–	–	–	(2,234,061)	(2,234,061)
Balances at December 31, 2002	9,820,230	9,820	150,000	150	5,137,398	–	–	(5,413,435)	(266,067)
Issuance of common stock net of offering costs of $ 130,628	577,852	578	–	–	644,395	–	–	–	644,973
Issuance of preferred shares	–	–	2,000,000	2,000	2,698,000	–	–	–	2,700,000
Issuance of warrants for consulting services	–	–	–	–	21,835	–	–	–	21,835
Issuance of warrants for offering costs	–	–	–	–	22,454	–	–	–	22,454
Net loss	–	–	–	–	–	–	–	(2,506,705)	(2,506,705)
Balances at December 31, 2003	10,398,082	10,398	2,150,000	2,150	8,524,082	–	–	(7,920,140)	616,490
Issuance of common stock net of offering costs of $ 2,234,671	17,915,714	17,916	–	–	12,144,538	–	–	–	12,162,454
Issuance of common stock for agent's fee	628,977	629	–	–	352,054	–	–	–	352,683
Issuance of common stock for settlement of debt	247,100	247	–	–	199,753	–	–	–	200,000
Issuance of common stock for finder's fees	3,333	3	–	–	4,497	–	–	–	4,500
Conversion of preferred stock to common stock	150,000	150	(150,000)	(150)	–	–	–	–	–
Issuance of warrants for consulting services	–	–	–	–	241,882	–	–	–	241,882
Issuance of warrants for offering costs	–	–	–	–	98,509	–	–	–	98,509
Issuance of warrants for finder's fees	–	–	–	–	3,900	–	–	–	3,900
Stock-based compensation	–	–	–	–	51,581	–	–	–	51,581
Net loss	–	–	–	–	–	–	–	(3,095,240)	(3,095,240)
Balances at December 31, 2004	29,343,206	29,343	2,000,000	2,000	21,620,796	–	–	(11,015,380)	10,636,759

See next page

See accompanying notes to the consolidated financial statements.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Period from inception on July 15, 1998 to December 31, 1998
and periods ended December 31, 1999, 2000, 2001, 2002, 2003, 2004, 2005 and September 30, 2006
(Expressed in U.S. dollars)
(Unaudited)

	Common stock		Preferred stock		Additional paid-in capital	Share subscriptions	Deferred stock compensation	(Deficit) accumulated during the development stage	Stockholders' equity
	Shares	Amount	Shares	Amount					
Issuance of common stock net of offering costs of $ 278,023	2,400,000	$ 2,400	–	$ –	$ 1,658,297	$ –	$ –	$ –	$ 1,660,697
Conversion of warrants to common shares	102,000	102	–	–	85,050	–	–	–	85,152
Issuance of common stock	52,000	52	–	–	(52)	–	–	–	–
Issuance of warrants for agent's fee	–	–	–	–	49,453	–	–	–	49,453
Issuance of warrants for offering costs	–	–	–	–	14,888	–	–	–	14,888
Stock-based compensation	–	–	–	–	289,533	–	–	–	289,533
Net loss	–	–	–	–	–	–	–	(6,020,166)	(6,020,166)
Balances at December 31, 2005	31,897,206	31,897	2,000,000	2,000	23,717,965	–	–	(17,035,546)	6,716,316
Issuance of common stock net of offering costs of $ 426,228	6,471,698	6,472	–	–	5,408,860	–	–	–	5,415,332
Conversion of preferred stock to common stock	2,000,000	2,000	(2,000,000)	(2,000)	–	–	–	–	–
Conversion of warrants to common shares	1,762,844	1,763	–	–	1,556,700	–	–	–	1,558,463
Issuance of common stock for options exercised	52,000	52	–	–	44,413	–	–	–	44,465
Issuance of warrants for agent's fee	–	–	–	–	45,336	–	–	–	45,336
Stock-based compensation	–	–	–	–	110,965	–	–	–	110,965
Net loss	–	–	–	–	–	–	–	(5,816,400)	(5,816,400)
Balance at September 30, 2006	42,183,748	$ 42,184	–	$ –	$ 30,884,239	$ –	$ –	$ (22,851,946)	$ 8,074,477

See accompanying notes to the consolidated financial statements.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
(Expressed in U.S. dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,		Cumulative from inception on July 15, 1998 to September 30,
	2006	2005	2006	2005	2006
CASH FLOW FROM OPERATING ACTIVITIES					
Net loss	$ (2,004,328)	$ (1,618,521)	$ (5,816,400)	$ (4,141,856)	$ (22,851,946)
Adjustments to reconcile net cash provided by operating activities					
Depreciation and amortization	54,948	18,376	133,225	33,631	332,576
Common shares issued for consulting services	–	–	–	–	1,033,669
Warrants issued for consulting services	–	–	–	–	404,842
Options issued for consulting services	–	–	–	–	87,968
Stock-based compensation	38,734	321,650	110,965	323,815	484,999
Decrease (increase) in					
Amounts receivable	15,745	12,973	(44,395)	(34,857)	(77,609)
Prepaid expense and deposits	43,648	(38,172)	96,222	(31,296)	(58,747)
Increase (decrease) in					
Accounts payable and accrued liabilities	(46,414)	(96,711)	(24,449)	(510,734)	228,750
Deferred revenue	–	–	–	(275,000)	–
	(1,897,667)	(1,400,405)	(5,544,832)	(4,636,297)	(20,415,498)
CASH FLOW FROM FINANCING ACTIVITIES					
Stock issued for cash	–	–	7,489,823	1,984,509	31,647,476
Stock issued for settlement of debt	–	–	–	–	200,000
Offering costs	–	–	(426,228)	(213,682)	(2,974,596)
Net advances from (repayment to) affiliates	273,387	308,181	503,288	(2,461)	458,323
Capital lease payments	(3,092)	(1,119)	(7,687)	(1,119)	(9,532)
	270,295	307,062	7,559,196	1,767,247	29,321,671
CASH FLOW FROM INVESTING ACTIVITIES					
Cash held by disposed subsidiary	–	–	–	–	(4,754)
Purchase of investments	(3,535,287)	–	(10,185,725)	(2,891,739)	(12,813,485)
Redemption of investments	4,303,483	787,191	7,023,252	–	7,023,252
Payment under license agreement	–	–	–	–	(50,603)
Purchase of property and equipment	(6,483)	(46,676)	(153,295)	(327,508)	(642,824)
	761,713	740,515	(3,315,768)	(3,219,247)	(6,488,414)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(865,659)	(352,828)	(1,301,404)	(6,088,297)	2,417,759
CASH AND CASH EQUIVALENTS, beginning of period	3,283,418	5,701,009	3,719,163	11,436,478	–
CASH AND CASH EQUIVALENTS, end of period	$ 2,417,759	$ 5,348,181	$ 2,417,759	$ 5,348,181	$ 2,417,759

See accompanying notes to the consolidated financial statements.

CHEMOKINE THERAPEUTICS CORP.
(A Development Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(Expressed in U.S. dollars)
(Unaudited)

1. DESCRIPTION OF BUSINESS

Chemokine Therapeutics Corp. (the "Company") was incorporated in the State of Washington on July 15, 1998 as PTM Molecular Biosystems Inc. In 1999 the Company changed its name to Chemokine Therapeutics Corp. and in 2000 was reincorporated in the State of Delaware.

The Company is in the business of discovering and developing innovative therapeutic products for the treatment of a variety of human diseases. As of September 30, 2006 the Company is considered a development stage company as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7"). The Company commenced operations in July 1998 and has been devoting most of its efforts to date in raising capital and in research and development. At September 30, 2006, the Company had not commenced planned principal operations and, as shown in the accompanying financial statements, has incurred losses during the period from inception to September 30, 2006 of $ 22,851,946.

On December 30, 2004 the Company announced its Initial Public Offering ("IPO") and its common shares were posted for trading on the Toronto Stock Exchange under the trading symbol "CTI" and in June 2005, the Company began trading on the Over-the-Counter Bulletin Board under the symbol "CHKT". Under its IPO the Company sold 18,400,000 common shares, including common shares sold under an over-allotment option for gross cash proceeds of $ 15,203,519 (Cdn$ 18,400,000).

The Company is subject to all of the risks inherent in an early stage business operating in the biotechnology industry. These risks include, but are not limited to, a limited operating history, limited management resources, and the challenges of bringing a drug through development to approval for sale. On March 22, 2006 the Company entered into a private placement and issued 6,471,698 common shares for gross proceeds of $ 5,886,896 (Cdn$ 6,860,000) and net proceeds after offering costs of $ 5,460,668. Management believes that these funds, together with current working capital, will be sufficient to fund the Company's operations through March 31, 2008.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation
The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with the United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These interim unaudited consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes of the Company in its Annual Report on Form 10-KSB for the year ended December 31, 2005 as filed with the SEC on March 30, 2006.

The consolidated financial statements reflect, in the opinion of management, all adjustments (including of normal recurring items) considered necessary for a fair presentation of the consolidated financial position, results of operations and cash flows. All significant intercompany accounts and transactions have been eliminated. Results of operations for the three months and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 or future operating periods. Significant accounting policies utilized in the preparation of the consolidated financial statements are summarized below:

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation
The consolidated financial statements include the accounts of the Company, its former wholly-owned Canadian subsidiary, Chemokine Therapeutics Inc., through to June 9, 2002, the date of disposal of the subsidiary and its wholly-owed Canadian subsidiary Chemokine Therapeutics (B.C.) Corp.

Revenue recognition
Revenue is not recognized until the product or service has been delivered or otherwise earned, all contractual obligations have been satisfied and collection of amounts due to the Company is reasonably assured. Amounts received by the Company prior to the recognition of associated revenue are reflected on the balance sheet as deferred revenue.

Research and development
Research and development expenses are expensed as incurred. Upfront and milestone payments made to third parties in connection with specific research and development projects are expensed as incurred up to the point of regulatory approval. Payments made to third parties subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product.

Reclassification
Certain 2005 amounts have been reclassified to conform to the presentation used in the current period.

Stock-based compensation
Effective January 1, 2006, the beginning of the Company's first fiscal quarter of 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "*Shared-Based Payment*" ("SFAS No. 123R"), using the modified-prospective transition method. Under this transition method, stock-based compensation expense was recognized in the consolidated financial statements for granted, modified, or settled stock options. Compensation expense recognized included the estimated expense for stock options granted on and subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standard No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123"). Results for prior periods have not been restated, as provided for under the modified-prospective method.

Prior to the January 1, 2006 adoption of the SFAS No. 123R, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations and as such, generally recognized no compensation cost for employee stock options granted at fair market value but recognized compensation cost for grants of employee stock-based compensation awards equal to the excess of the market price of the underlying common stock at the date of grant over the exercise price of the stock related award. As permitted by SFAS No. 123, "*Accounting for Stock-Based Compensation*", stock-based compensation was included as a pro forma disclosure in the notes to the consolidated financial statements.

Stock-based compensation represents the cost related to stock-based awards granted to employees. The Company measures stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. The Company estimates the fair value of stock options using a Black-Scholes valuation model.

The following table shows the pro forma effect on Net loss and loss per share had compensation cost been recognized based upon the estimated fair value on the grant date of stock options, in accordance with SFAS No. 123 for the nine month period ended September 30, 2005:

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continued

	Nine months ended September 30, 2005 (Pro forma)
Net loss per consolidated statements of operations	$ (4,141,856)
Stock-based compensation intrinsic value basis	323,815
Stock-based compensation fair value basis	(132,415)
Pro-forma net loss	$ (3,950,456)
Pro-forma loss per share	$ (0.13)

No pro forma disclosures for the nine month period ended September 30, 2006 are presented because the amounts are recognized in the interim consolidated financial statements in accordance with SFAS No. 123R.

3. **CAPITAL STOCK**

Common stock
During the period from inception to September 30, 2006 the Company issued 42,183,748 common shares for total consideration of $ 32,881,145 net of offering costs of $ 3,647,039.

During the nine month period ended September 30, 2006 the Company issued an aggregate 8,286,542 shares of common stock at $ 0.85 to $ 0.91 per share, for cash consideration of $ 7,489,823 before offering costs of $ 426,228.

During the nine month period ended September 30, 2006, all 2,000,000 shares of preferred stock were converted to 2,000,000 shares of common stock on a 1 for 1 basis. The Company incurred costs of $237,600 to facilitate the conversion of the preferred shares. Total costs paid in connection of the conversion are included in general and administrative expenses reported on the interim consolidated statements of operations.

Warrants
During the nine month period ended September 30, 2006, the Company issued 350,000 stock purchase warrants exercisable into common shares at $ 1.07 per share which expire on March 22, 2008. The stock purchase warrants were issued as partial consideration for agents' fee. The stock purchase warrants were accounted for at their fair value, as determined by the Black-Scholes valuation model, of $ 45,336. This amount was charged to capital stock as an offering cost.

During the nine month period ended September 30, 2006, stock purchase warrants were exercised for 1,762,844 common shares at $ 0.85 to $ 0.90 per share.

3. **CAPITAL STOCK** – continued

The following table summarizes information regarding stock purchase warrants outstanding at September 30, 2006:

Exercise price	Number outstanding and exercisable	Expiry dates
$ 0.80	50,000	June 2007
0.89 (Cdn$ 1.00)	560,000	December 2006 to December 2007
1.12 (Cdn$ 1.25)	350,000	March 2008
1.25	1,296,000	June 2007 to November 2007
1.35	169,100	July 2007 to November 2007
1.50	56,000	June 2007 to November 2007
	2,481,100	

Common stock reserved for future issuances
Common stock reserved for future issuances as of September 30, 2006 is as follows:

Outstanding stock options	2,812,000
Stock options available for grant	1,686,416
Outstanding stock purchase warrants	2,481,100
	6,979,516

4. **STOCK-BASED COMPENSATION**

As discussed in note 2, "Significant Accounting Policies", effective January 1, 2006, the Company adopted the fair value recognition provisions for stock-based awards granted to employees using the modified-prospective transition method provided by SFAS No. 123R.

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to employees, directors and consultants. Stock options entitle the holder to purchase common stock at a subscription price determined by the Board of Directors at the time of the grant. Options vest 4% at the time of grant and then at 4% per month for 24 months, at which time the options are fully vested. Options generally expire 5 years from the date of grant.

The maximum number of shares of common stock authorized by the stockholders and reserved and available for issuance by the Board of Directors is 4,498,416. The compensation cost that has been charged against income for the nine month period ended September 30, 2006 for this plan was $ 110,965.

4. **STOCK-BASED COMPENSATION** – continued

The fair value for stock awards was estimated at the date of grant using the Black-Scholes valuation model with the following weighted average assumptions for the nine months ended September 30, 2006 and September 30, 2005:

	Nine months ended September 30,	
	2006	2005 (Pro forma)
Expected term (in years)	5	5
Expected volatility	22%	58%
Risk-free interest rate	4.7%	3.4%
Expected dividend yield	0.0%	0.0%
Estimated fair value per option granted	$ 0.26	$ 0.45

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. For 2006, expected volatility is based on historical volatility of the Company's stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term. The Company has not paid dividends in the past and does not plan to pay any dividends in the near future.

The Black-Scholes valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, particularly for the expected term and expected stock price volatility. The Company's stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Because the Company's stock options do not trade on a secondary exchange, option holders do not derive a benefit from holding stock options unless there is an increase, above the grant price, in the market price of the Company's stock. Such an increase in stock price would benefit all shareholders commensurately.

The fair value of each stock option granted is estimated on the date of grant using Black-Scholes valuation model. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's experience. Options granted are valued using the Black-Scholes valuation approach, and the resulting expense is recognized using the graded attribution method. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. Prior to the adoption of SFAS No. 123R, the effect of forfeitures on the pro forma expense amounts was recognized as the forfeitures occurred.

4. **STOCK-BASED COMPENSATION** – continued

A summary of the Company's stock option activity for the nine months ended September 30, 2006 is presented in the following table:

	Shares under options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding, January 1, 2006	2,656,500	$ 0.92		
Granted	555,000	1.04		
Exercised	(52,000)	0.90		
Cancelled	(347,500)	1.16		
Outstanding, September 30, 2006	2,812,000	$ 0.94	3.3	$ 0.0
Exercisable, September 30, 2006	2,265,000	$ 0.93	2.3	$ 0.0

The aggregate intrinsic value in the table above is based on the Company's closing stock price of $ 0. 76 as of the last business day of the period ended September 30, 2006, which would have been received by the optionees had all options been exercised on that date. As of September 30, 2006, total unrecognized stock-based compensation expense related to nonvested stock options was $ 113,537 which is expected to be recognized over a weighted average period of 1.3 years. During the nine months ended September 30, 2006, the total intrinsic value of stock options exercised was $ 4,467 and the total fair value of options vested was $ 94,972.

A summary of the status of the Company's nonvested shares as of September 30, 2006, and changes during the period ended September 30, 2006, is presented below:

Nonvested Shares	Shares	Weighted average grant-date fair value
Nonvested at January 1, 2006	762,580	$ 0.26
Granted	555,000	0.26
Vested	(571,500)	0.17
Forfeited	(77,240)	0.48
Nonvested at September 30, 2006	668,840	$ 0.32

Cash received from options exercised under the share-based payment arrangement for the nine month period ended September 30, 2006 was $ 44,465. Since the Company has not realized any deferred tax benefits, no actual tax benefit was realized relating to the option exercised.

The Company issues shares of common stock upon exercise of stock options from the treasury shares.

5. RELATED PARTY TRANSACTIONS

The Company's amount due to affiliate of $411,504 at September 30, 2006 and amount due from affiliate of $91,783 at December 31, 2005 are both due from (to) a contract service provider company, a corporation controlled by a director. The amounts are related to research expenses incurred for research services provided by this contract service provider company.

During the nine month period ended September 30, 2006, the Company paid $ 2,965,555 (2005 - $ 2,166,664) to a contract service provider company, a corporation controlled by a director, for research activities performed on behalf of the Company.

During the nine month period ended September 30, 2006, the Company paid board compensation to its non-management directors totaling $ 65,500 (2005 - $ 60,500), which are included in general and administrative expense.

During the nine month period ended September 30, 2006, the Company paid rent of $ 10,543 (2005 - $ 17,112) to a corporation with a director in common.

During the nine month period ended September 30, 2006, the Company paid consulting fees of $ 22,738 (2005 - $ nil) to two companies controlled by a family member of a director.

6. COMMITMENTS

Contractual agreements
The Company has entered into various research and development agreements with third parties to perform research and development services on its behalf. The Company is committed to pay $ 1,290,136, in respect of contracts in place at September 30, 2006.

Lease agreements
The Company leases office premises and a vehicle under operating leases which expire at various dates ending July 31, 2008. The Company is obligated to make the following minimum lease payments under its operating leases in each of the fiscal years ending December 31:

2006	$ 21,900
2007	82,500
2008	44,300
	$ 148,700

License agreement
On April 12, 2006, the Company entered into an agreement with Pharmaceutical Product Development, Inc ("PPDI") to re-acquire licensing rights to its drug candidate CTCE-0214 that had previously been granted to PPDI in April, 2003.

Under the agreement the Company is obligated to achieve various milestones and is committed to make milestone payments.

Milestone payments are to be made as follows:

- $ 250,000 cash upon the dosing of the first subject in a Phase III clinical trial of CTCE-0214
- $ 250,000 cash upon filing a New Drug Application with the United States Food and Drug Administration ("FDA") with respect to CTCE-0214 (or any equivalent filing in any foreign country)
- $ 1,000,000 cash upon approval by the FDA (or any equivalent regulatory body in a foreign country) of CTCE-0214 for any therapeutic use
- 50 percent of the first net sales of CTCE-0214 up to $ 1,000,000

7. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements are presented in accordance with United States generally accepted accounting principles ("U.S. GAAP"). U.S. GAAP differs in certain material respects from Canadian generally accepted accounting principles ("Canadian GAAP"). The material differences between U.S. GAAP and Canadian GAAP are as follows:

Consolidated statement of operations

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005 (pro forma)	2006	2005 (pro forma)
Net loss under U.S. GAAP	$ (2,004,328)	$ (1,618,521)	$ (5,816,400)	$ (4,141,856)
Stock-based compensation intrinsic value basis (i)	–	321,650	–	323,815
Stock-based compensation fair value basis under U.S. GAAP(i)	38,734	–	110,965	–
Stock-based compensation fair value basis under Canadian GAAP(i)	(48,871)	(39,096)	(117,060)	(132,415)
Net loss under Canadian GAAP	$ (2,014,465)	$ (1,335,967)	$ (5,822,495)	$ (3,950,456)
Loss per share under Canadian GAAP	$ (0.05)	$ (0.04)	$ (0.15)	$ (0.13)

(i) **Stock-based compensation**

On January 1, 2004 the Company retroactively adopted the revised provisions of the Canadian Institute of Chartered Accountants' Handbook Section 3870 "Stock-Based Compensation and Other Stock-based Payments" ("Section 3870"). Section 3870, as revised, requires stock-based compensation be charged to expense based on estimated fair value. The fair value of stock-based compensation is determined, under Section 3870, the same way as under SFAS No. 123 before January 1, 2006. The adoption of this revised standard impacts net loss reported under Canadian GAAP and otherwise has no impact on stockholders' equity or net cash used in operations before the adoption of SFAS No. 123R.

The Company adopted SFAS No. 123R on January 1, 2006. Generally, the approach under SFAS No. 123R is similar to the approach under Section 3870. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values and requires a forfeiture assumption on the Company's unvested awards. Section 3870 does not require the forfeiture estimates.

7. **DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES** – continued

(ii) **Contributed surplus**

U.S. GAAP uses the phrase "Additional Paid-in Capital" to describe consideration received in excess of the par value of warrants and stock options. Canadian GAAP uses the phrase "Contributed Surplus".

(iii) **Development stage disclosure**

The Company is considered a development stage Company as defined by SFAS No. 7. The Company is also considered a development stage Company under Accounting Guideline 11 "Enterprises in the development stage" of the Canadian Institute of Chartered Accountants' Handbook.

(iv) **Foreign currency translation**

Canadian GAAP does not expressly provide for the concept of a "functional currency" with respect to foreign currency translation. However, the method of translation used by the Company is equivalent to the method required under Canadian GAAP.

(v) **Research and development**

Under U.S. GAAP, costs to purchase rights to unproven technology, which may not have alternative future uses, are expensed as research and development. Under Canadian GAAP, the purchase costs of such rights are generally capitalized as an intangible asset.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATIONS

Shareholders should read the following discussion and analysis together with our financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-QSB. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under "Risk Factors" and elsewhere in this Quarterly Report, our actual results may differ materially from those anticipated in these forward-looking statements.

All references to "$" or "dollars" in this discussion and analysis are to U.S. dollars unless otherwise noted.

Overview

We are in the biotechnology business with a focus on the discovery and development of protein based drugs. In particular, we focus on the area of chemokines, proteins which regulate a large number of physiological functions. Since inception on July 15, 1998, we have established and are developing five drug candidates. Two of our drug candidates are in human clinical trials. These two drug candidates are CTCE-9908 and CTCE-0214, indicated for the prevention of the metastasis of cancer and for hematological support, respectively. Our other three drug candidates are in preclinical / research development in the areas of neovascularization, CTCE-0324, wound healing, CTCE-0422, and stroke, CTCE-0501. In addition, we maintain drug discovery capabilities to identify new drug candidates.

Limited Operating History

Since inception we have been in the development stage. From inception to September 30, 2006, our accumulated deficit was approximately $22.9 million. We expect to continue to incur operating losses in the near term as we fund clinical trials and until such time as product sales and/or royalty payments generate sufficient revenues to fund continuing operations.

We raised a total of Cdn$18,400,000 in an initial public offering, including the underwriters' exercise of the over-allotment or "green shoe" option in December 2004 and January 2005. In March 2006, we placed a total of 6,471,698 common shares in a nonpublic transaction for gross proceeds of $5,886,896 or Cdn$6,860,000 and net proceeds after offering costs of $5,460,668. We believe that these funds, together with current working capital, will be sufficient to fund our operations through March 31, 2008. If we need additional funds to continue to advance the development of our drug candidates and such funds are not available in a timely manner or at a reasonable cost, we will either have to suspend operations until funds become available, or try to find a partner to help the development of our products.

Research and Development

Our research and development expenses consist primarily of costs associated with the clinical trials of our drug candidates, compensation and other expenses for research and development personnel, related contract research, manufacturing of compounds, facility costs, supplies and materials and costs for consultants. We engage Globe Laboratories Inc, an independent contract service provider company, to carry out some of our research work for a fee based on cost plus a 2% margin. Globe Laboratories Inc. is controlled by Dr. Hassan Salari our President and Chief Executive Officer. Pursuant to a development agreement between us and Globe Laboratories, all proprietary interest, including all patent rights, trademarks, copyright, trade secrets and confidential information of the research conducted by Globe Laboratories on our products is our exclusive property.

Our research and development activities are primarily focused on the clinical trials of CTCE-9908, a drug candidate for the prevention of metastasis of cancer, and CTCE-0214, a drug candidate for hematological support. We are responsible for all costs incurred in the research and development program of these two lead drug candidates. Our research and development activities also include three other drug candidates that we intend to test in animal models of peripheral arterial disease, infectious disease and stroke.

We expect to incur costs associated with our research and development activities as we continue work on our drug candidates and expand our research and development programs. Over the next eighteen months, our product research and development plan includes:

- Conduct Phase I/II clinical trials for CTCE-9908, our anti-metastasis drug candidate.
- Conduct additional Phase I clinical trials for CTCE-0214, our hematological support drug candidate.
- Continue pre-clinical studies for CTCE-0324.

Clinical development timelines, likelihood of success and total costs vary widely. Although we are currently focused primarily on advancing our two drug candidates, we anticipate that we will make determinations as to which research and development projects of our five compounds to pursue and how much funding to direct to each project on an ongoing basis in response to the scientific and clinical success of each product candidate, as well as an ongoing assessment of its market potential.

Completion dates and completion costs to bring a drug to market vary significantly for each drug candidate given the nature of the clinical trials and the fact that more clinical trials may need to be conducted to advance a drug candidate based upon the results of each phase. In addition, we anticipate partnering with larger pharmaceutical companies to conduct and finance later stage clinical trials and therefore the timing of completion of the approval of a drug will likely not be within our control. Based on these factors we cannot reasonably estimate the completion dates and completion costs required to gain regulatory approval of our compounds for sale. The lengthy process of seeking regulatory approvals, and subsequent compliance with applicable regulations, require the expenditure of substantial resources. Delays in obtaining regulatory approvals could cause our research and development expenditures to increase and, in turn, require additional funding.

General and Administrative

General and administrative expenses consist primarily of salaries and other related costs for personnel in executive, finance, accounting and business development functions. Other costs include consulting, legal and accounting services fees, investor relations, patent fees, marketing and promotion and facility costs not otherwise included in research and development expenses.

Capital Expenditures

We intend to acquire laboratory equipment over the next eighteen months at an estimated cost of $100,000.

Foreign Exchange

We use U.S. dollars as our functional currency. We present our consolidated financial statements in U.S. dollars using the current rate method. Under the current rate method, we translate all assets and liabilities using the exchange rate at the balance sheet date. We translate revenues, expenses, gains and losses at the weighted average rates of exchange for the respective periods. Before the consolidation, we remeasure the financial statements of the subsidiary from its local currency to its functional currency of U.S. dollars at the end of each reporting period. Monetary items of the subsidiary's financial statements are remeasured by applying the current exchange rate and non-monetary items are remeasured by applying historical exchange rates. We include the resulting exchange gain or loss in foreign currency on the income statement in the foreign exchange gain or loss account.

Fluctuations in the relative values of the Canadian and U.S dollars can affect the reported value of Canadian dollar denominated assets and liabilities on our balance sheet. A strengthening (weakening) Canadian dollar in relation to the U.S. dollar results in higher (lower) reported values for our Canadian dollar denominated assets and liabilities.

Critical Accounting Policy

We base our discussion and analysis of financial condition and results of operations on our financial statements, which we have prepared in accordance with United States generally accepted accounting principles. We present the differences between U.S. and Canadian GAAP in Note 7 to our quarterly financial statements. In the preparation of financial statements, we make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. While we describe our significant accounting policies in Note 2 to our financial statements, we believe the following accounting policy to be critical.

Stock-Based Compensation

Effective January 1, 2006, the beginning of the Company's first fiscal quarter of 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Shared-Based Payment" (SFAS 123R), using the modified-prospective transition method. Under this transition method, stock-based compensation expense is recognized in the consolidated financial statements for granted, modified, or settled stock options. Compensation expense recognized includes the estimated expense for stock options granted on and subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Results for prior periods have not been restated, as provided for under the modified-prospective method.

Prior to the January 1, 2006, adoption of SFAS No. 123R, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and as such, generally recognized no compensation cost for employee stock options granted at fair market value but recognized compensation cost for grants of employee stock-based compensation awards equal to the excess of the market price of the underlying common stock at the date of grant over the exercise price of the stock related award. As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," stock-based compensation was included as a pro forma disclosure in the notes to the consolidated financial statements. SFAS 123R is a revision of SFAS No. 123, and supersedes APB Opinion No. 25.

Stock-based compensation represents the cost related to stock-based awards granted to employees. The Company measures stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. The Company estimates the fair value of stock options using a Black-Scholes option valuation model.

As of September 30, 2006, total unrecognized stock-based compensation expense related to nonvested stock options was $113,537, which is expected to be recognized over a weighted average period of approximately 1.3 years.

Results of Operations

Three Months Ended September 30, 2006, and 2005

Revenues. We had no revenues in the three months ended September 30, 2006 and 2005.

Research and development. We recorded research and development expenses of $1,464,591 during the three months ended September 30, 2006, compared to $1,051,986 for the three months ended September 30, 2005. The increase in research and development expenses in the current period was primarily attributable to the increased clinical trial costs for our two lead compounds CTCE-0214 and CTCE-9908 and continued efforts with our other early research activities.

During the quarter we continued dosing subjects under an ongoing, three stage, Phase I clinical study for CTCE-0214 which began in December 2005. We recorded direct costs for CTCE-0214 of approximately $413,200 for the three months ended September 30, 2006, compared to approximately $485,200 for the three months ended September 30, 2005. We anticipate continuation of the Phase I clinical trial for the remainder of the year.

We recorded direct costs for CTCE-9908 of approximately $533,700 for the three months ended September 30, 2006, which included commencement of the Phase I/II clinical trial. This compares to approximately $497,300 for the three months ended September 30, 2005. We anticipate continuation of the Phase I/II clinical trial for CTCE-9908 throughout the remainder of 2006 and the first half of 2007.

General and administrative. We recorded general and administrative expenses of $525,351 for the three months ended September 30, 2006, compared to $598,743 for the comparative period in 2005. General and administrative expenses consist primarily of salaries, legal and accounting services, investor relations, office expenses, patent filing costs and business development. The slight decrease in general and administrative expenses is due to a reduction in legal expenses.

Stock-based compensation. During the first quarter of 2006, we adopted the provisions of SFAS 123R, using the modified-prospective transition method resulting in the recording of an expense of the fair value for granted, modified, settled stock options. For the three months ended September 30, 2006, we recorded stock-based

compensation expense of $38,734, compared to $321,650 for the three months ended September 30, 2005. The stock-based compensation expense for the three months ended September 30, 2005, includes the expense recorded under variable accounting and relates to certain stock options granted in 2004.

Other income. We realized other income of $93,938 for the three months ended September 30, 2006, compared to $95,721 for the three months ended September 30, 2005. Other income consisted primarily of interest earned on cash balances and investments.

Net loss. We incurred a net loss of $2,004,328 ($0.05 per share) during the three months ended September 30, 2006, compared to $1,618,521 ($0.05 per share) during the three months ended September 30, 2005. The increase in our net loss resulted principally from the increase in research and development expenditures as described above.

Nine Months Ended September 30, 2006, and 2005

Revenues. During the nine months ended September 30, 2006, we recorded no revenues. During the nine months ended September 30, 2005, we recorded revenues of $275,000 from a research collaboration with P&GP involving an evaluation of our compounds for cardiovascular applications.

Research and development. We recorded research and development expenses of $3,900,707 during the nine months ended September 30, 2006, compared to $2,526,187 for the nine months ended September 30, 2005. The increase in research and development expenses in the current period was primarily attributable to the increased expenses associated with our two lead compounds CTCE-0214 and CTCE-9908 and our continued efforts with our other early research activities. Research and development expenses also include regulatory expenses and research staff salaries and a $100,000 payment to PPDI to re-acquire the rights to our CTCE-0214 compound.

We recorded direct costs for CTCE-0214 of approximately $1,483,100 for the nine months ended September 30, 2006, compared to approximately $1,342,400 for the nine months ended September 30, 2005. We anticipate conducting the Phase I clinical trial for the remainder of the year.

We recorded direct costs for CTCE-9908 of approximately $1,375,300 for the nine months ended September 30, 2006, which included costs of the Phase I/II clinical trial currently underway as well as preparatory work for the Phase I/II clinical trial, and related manufacturing of compound. This compares to approximately $876,000 for the nine months ended September 30, 2005.

General and administrative. We recorded general and administrative expenses of $2,215,003 for the nine months ended September 30, 2006, compared to $1,884,613 for the comparative period in 2005. General and administrative expenses consist primarily of salaries, legal and accounting services, investor relations, office expenses, patent filing costs and business development. General and administrative expenses include a $237,600 fee paid to PPD to facilitate the sale of their common shares to third-party investors subsequent to PPD's conversion of its 2,000,000 convertible preferred shares into 2,000,000 common shares.

Stock-based compensation. For the nine months ended September 30, 2006, we recorded stock-based compensation expense of $110,965 compared to $323,815 for the nine months ended September 30, 2005. The stock-based compensation expense for the nine months ended September 30, 2005, includes the expense recorded under variable accounting and relates to certain stock options granted in 2004.

Other income. We realized other income of $255,190 for the nine months ended September 30, 2006, compared to $216,139 for the nine months ended September 30, 2005. Other income consisted primarily of interest earned on cash balances and investments which benefited from increasing interest rates and larger average cash balances.

Net loss. We incurred a net loss of $5,816,400 ($0.15 per share) during the nine months ended September 30, 2006, compared to $4,141,856 ($0.13 per share) during the nine months ended September 30, 2005. The increase in our net loss resulted principally from the increase in research and development expenditures as described above.

Liquidity and Capital Resources

Since inception we have financed substantially all of our operations through the private and public offerings of equity securities. Through September 30, 2006, we received net proceeds of approximately $28 million from the issuance of shares of preferred and common stock. As of September 30, 2006, we had funds available of $8,207,992.

We invest our surplus cash in redeemable, government treasuries and other investment grade commercial paper with maturities of under two years.

On March 22, 2006, we placed a total of 6,471,698 shares of common stock in a nonpublic transaction for gross proceeds of $5,886,896 or Cdn$6,860,000 and net proceeds after offering costs of $5,460,668. On December 29, 2004, we closed our initial public offering for gross proceeds of $13,264,799 or Cdn$16,000,000 and net proceeds of $11,576,484 after agent's commissions of $994,860 and expenses in connection with the offering (including legal, accounting, translation, filing fees and printing costs) of $693,455. Our agents exercised the over-allotment or "greenshoe" option of the initial public offering in full on January 31, 2005, for gross proceeds of $1,968,651 or Cdn$2,400,000.

For the three months ended September 30, 2006, we used net cash of $1,897,667 in operating activities consisting primarily of the net loss for the period of $2,004,328. Cash flow from operating activities was further decreased by a reduction in accounts payable of $46,414.

Cash generated from financing activities for the three months ended September 30, 2006, was $270,295 as a result of an increase in our outstanding obligation to Globe Laboratories Inc. by $273,387.

For the nine months ended September 30, 2006, we used net cash of $5,544,832 in operating activities consisting primarily of the net loss for the period of $5,816,400. Cash generated from financing activities for the nine months ended September 30, 2006, was $7,559,196 and includes net proceeds of $5,460,668 from our March 22, 2006, private placement and $1,602,927 from the exercise of warrants and options. During the first nine months ended September 30, 2006, we had a net advance of $503,288 to Globe Laboratories Inc., as a result of Globe Laboratories conducting research and development activities for us. During the same period, we purchased $153,295 of laboratory equipment.

We believe that our current funds will be sufficient to fund our operations through March 31, 2008. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue one or more of our clinical trials or our operations.

We will continue to incur substantial operating losses. We cannot accurately forecast our future capital requirements because such forecasts depend on many factors, including:

- the rate of progress and cost of our planned or future clinical trials and other development activities;
- the scope, prioritization and number of clinical development and research programs we pursue;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the costs and timing of regulatory approval;
- the costs of establishing or contracting for manufacturing, sales and marketing capabilities;
- the costs of expanding our facilities to support our operations;
- the effect of competing technological and market developments; and
- the terms and timing of any collaborative, licensing and other arrangements that we may establish.

We intend to seek additional funding through sublicensing arrangements or through public or private financings, but our business and shareholders' investment are at risk that we will be unable to obtain additional financing on acceptable terms or at all.

Long Term Obligations

We lease our office facilities and a vehicle under operating leases which expire at various dates ending July 31, 2008. We are obligated to make the following minimum lease payments under our operating leases in each of the fiscal years ending December 31:

2006	$21,900
2007	82,500
2008	44,300
	$148,700

We have entered into various research and development and consulting agreements with third parties to perform research and development and business development services on our behalf. We are committed to pay $1,290,136, in respect of contracts in place at September 30, 2006.

Off-Balance Sheet Arrangements

We do not have, and do not have any present plans to implement, any off-balance sheet arrangements.

Risk Factors

An investment in our shares of our common stock must be considered highly speculative, generally because of the nature of our business and the general stage of its development. In addition to the usual risks associated with investment in a business, potential investors should carefully review the following factors together with the other information contained in this quarterly report before making an investment decision. The risks described below are not the only ones facing us. If any of the following risks actually occur, our business, financial condition and operating results could be materially affected.

Risks Related to Our Industry

Because the manufacture and marketing of human pharmaceutical products requires the approval of the Food and Drug Administration in the United States and similar agencies in other countries, and since we do not yet have such approval, shareholders are at risk that we will be unable to successfully develop and market our products. We have not yet established that our products will be safe and effective through clinical trials.

The manufacture and marketing of human pharmaceutical products in the United States, Canada and other countries, require the approval from the United States Food and Drug Administration, the Canadian Therapeutic Products Directorate and other similar foreign regulatory agencies. The process that our pharmaceutical product candidates must undergo to obtain these approvals includes preclinical testing and clinical trials to demonstrate safety and efficacy. Such process is expensive and time consuming. Investors are at risk that we will be unable to successfully develop future products, prove safety and effectiveness in clinical trials, or receive applicable regulatory approvals.

We have no experience in manufacturing pharmaceuticals and the applicable good manufacturing practice regulations for the manufacture of our products. These regulations include requirements relating to quality control, quality assurance and maintenance of records and documentation. If we cannot establish and demonstrate the proper manufacturing techniques and controls, whether by us or by a qualified manufacturer, we will not receive regulatory approval to manufacture and market our products.

Regulatory authorities have the power to withdraw a previously approved product from the market upon a change in regulations or upon receipt of newly discovered information and/or require additional, and potentially expensive, additional testing. Since we have no history with our products, we might face such newly discovered information that comes to light after initial approval of our products.

Unanticipated changes in existing regulations or the adoption of new regulations could adversely affect the development, manufacture and marketing of our products. Since we have no operating history, ongoing government regulation could cause unexpected delays and adversely impact our business in areas where our inexperience might lead to failure in complying with applicable requirements. Such failure to comply might also result in criminal

prosecution, civil penalties, recall or seizure of products, or partial or total suspension of production. Any of these penalties could delay or prevent the promotion, marketing or sale of our products. Furthermore, the laws, regulations, policies or current administrative practices of any governmental body, organization or regulatory agency in the United States, Canada or any other jurisdiction, might be changed, or applied or interpreted in a manner which will fundamentally alter the ability of us or our collaborative partners to develop, operate, export or market the products or services which we may provide. We do not have lobbying or other resources to affect the course of such changes. If such future changes have an adverse impact on our products or their manufacture and marketing, the likelihood of our success could be damaged.

We are engaged in a rapidly changing field characterized by intense competition that we expect to increase. Since we are a small company with limited financial resources, and many of our competitors have products that have been approved or are in development and operate large, well-funded discovery and development programs, we will experience a competitive disadvantage.

We are engaged in a rapidly changing field characterized by rapid technological change, new and improved product introductions, changes in regulatory requirements and evolving industry standards. Other products and therapies that will compete directly with the products that we are seeking to develop currently exist or are being developed. We expect competition from fully integrated pharmaceutical companies and more established biotechnology companies to be intense and to increase. These companies have significantly greater financial resources and expertise in discovery and development, manufacturing, preclinical and clinical testing, obtaining regulatory approvals and marketing than we do. Many of our competitors have products that have been approved or are in development and operate large, well-funded discovery and development programs. Academic institutions, governmental agencies and other public and private research organizations also conduct research, seek patent protection and establish collaborative arrangements for therapeutic products and clinical development and marketing. We have none of these resources. In addition, we will face competition based on product efficacy and safety, the timing and scope of regulatory approvals, availability of supply, marketing and sales capability, reimbursement coverage, pricing and barriers from patent positions of larger companies. We do not have any experience in these areas at this time and therefore we are at a competitive disadvantage.

If our competitors succeed in developing competing products earlier than we do, in obtaining regulatory approvals for such products more rapidly than we do, or in developing products that are more effective or less expensive than the products we develop, we will have difficulty competing with them.

Since our competitors keep this type of information confidential, we do not know where they stand in developing competing products. As a result, we might be using our resources to develop products that will face such competition from our competitors and our products might not be successful in the marketplace. Our future success depends on our ability to timely identify new market trends and develop, introduce and support new and enhanced products on a successful and timely basis. We might not be successful in developing or introducing to the market our products. If we fail to develop and deploy new products on a successful and timely basis, we will be non-competitive and unable to recoup the research and development and other expenses we incur to develop and test new product candidates.

Even if our products are approved for sale by the regulatory authorities, we have not yet demonstrated their market acceptance and they might not gain market acceptance among physicians, patients, healthcare payers and the medical community.

The degree of market acceptance will depend on a number of factors, including:

- demonstration of the clinical efficacy and safety of the products;
- cost-effectiveness;
- potential advantage over alternative treatment methods;
- the effectiveness of marketing and distribution support for the products; and
- reimbursement policies of government and third party payers.

If our product candidates do not achieve significant market acceptance, our business and financial condition will be materially adversely affected.

Our products may become technologically obsolete.

We have developed a particular skill in creating chemokine based product candidates. Biotechnology and related pharmaceutical technology are subject to rapid and significant change. Our success will depend in large part on our

ability to maintain a competitive position with respect to our chemokine products in comparison to technologies that might be developed. If we are unsuccessful in our ongoing development activities, our current compounds, products or processes that we develop may become obsolete before we recover any expenses incurred in connection with the development of these product candidates.

Our success may depend in part on the extent to which reimbursement for the cost of our products will be available from government health administration authorities, private health coverage insurers and other organizations, since potential customers might not use our products if such reimbursement is not available.

At the present time, we have not established that such governmental authorities or non-governmental providers will reimburse physicians and patients for the use of our products. Recently, the prices of medical products and services have increasingly been examined and challenged by third parties and consumers of such products and services. We anticipate that new federal or state legislation will be proposed to attempt to manage and contain costs. Since we have not yet established reimbursement coverage, we face significant uncertainty as to the reimbursement status of newly approved health-care products and whether third party reimbursement will be available at price levels sufficient for us to realize our desired returns.

Since we will be administering our products in human clinical trials and thereafter to patients, we will be subject to potential product liability risks which are inherent in the testing, manufacturing, marketing and sale of therapeutic products.

Our clinical studies include trials on humans. These studies create a risk of liability for serious side effects to participants resulting from an adverse reaction to the products being tested or resulting from negligence or misconduct and the associated adverse publicity. We manage our liability risks by trying to follow proper protocols and through product liability insurance. We currently purchase liability insurance for clinical trials at the time we begin such trials. At the present moment, we have liability coverage limits of $3,000,000. Such insurance is expensive and difficult to obtain. In the future, insurance coverage might not be available to us on acceptable terms, if at all. If we are unable to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims we might not be able to commercialize our products. If we face a future product liability claim or a product withdrawal, we will suffer a material adverse effect on our financial condition.

Our discovery and development processes involve the controlled use of hazardous and radioactive materials, which are subject to certain laws and regulations. We cannot eliminate the risk of accidental contamination or injury from these materials.

We are subject to federal, provincial and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. We cannot eliminate the risk of accidental contamination or injury from these materials. If such an accident occurs, we might be held liable for any damages that result and any such liability could exceed our resources. We are not specifically insured with respect to this liability.

Risks Related to Our History or to Our Business

Since we are at an early stage of development, we have not completed the development of any product and we have not begun to market or generate revenues. We do not anticipate generating any revenue in the foreseeable future. If we are unsuccessful in completing the developing and marketing of our products, our securities will be worthless.

We were founded in 1998 and are at an early stage of development. Our operations to date have consisted primarily of developing and testing our products. Our products will require significant additional clinical testing and investment prior to commercialization. A commitment of substantial resources by us and/or future collaborative partners to conduct time-consuming research and clinical trials will be required if we are to complete the development of our portfolio of products. None of our products has yet met applicable regulatory standards, has received regulatory approvals, has been produced in commercial quantities at reasonable costs or has been successfully marketed. We do not know if we will be able to complete these tasks. Even if one or more of our products should be approved by the regulatory authorities, the approval may not be for the treatment of a disease whose market is large enough to recoup our investment in that product. We do not expect any of our products to be commercially available for several years. Accordingly, we do not know if and when we will generate revenues from our products. Because of these uncertainties, we might never generate enough revenue to allow shareholders to recoup and profit from their investment.

Since we have a history of operating losses and expect expenses and losses to increase in the near term, we do not know if we will ever become profitable or that our investors will ever recoup or profit from their investment in our shares.

From the date of incorporation to September 30, 2006, our accumulated losses are approximately $22.9 million. Since inception we have earned no revenues from the sale of any of our product candidates. We expect expenses and losses to increase in the near term as we fund research and development and general and administrative expenses. We expect to continue to incur substantial operating losses unless and until product sales and royalty payments generate sufficient revenues to fund continuing operations. As a result, investors might never recoup their investment or profit from their investment in our shares.

Since our success is dependent on the commencement and completion of clinical trials, regulatory approval and introduction of our products into the market, and since we have completed none of the tasks at this time, we do not know if we will be able to complete them.

The actual timing of these events can vary dramatically due to factors such as delays or failures in our clinical trials, the uncertainties inherent in the regulatory approval process, and the inability to establish on favorable terms the collaborative partnerships that we plan to use for the completion of Phase III clinical trials and the marketing and manufacturing of our product candidates. We might not be able to complete the clinical trials involving CTCE-9908, CTCE-0214 or any other product candidates, to make the necessary regulatory submissions, or to gain regulatory approvals necessary for marketing our products. Our failure to achieve these objectives will mean that investors will not be able to recoup their investment or to receive a profit on their investment.

We will continue to require substantial additional funds for further research and development, planned clinical trials and regulatory approvals. We might not be able to obtain additional funding on acceptable terms if at all. Without additional funding, we will fail.

Since inception to September 30, 2006, we have raised approximately $28 million, net of offering costs, from the sale of equity securities, including proceeds from our private placement in March 2006. Although we believe our current resources will provide funds for our operations through March 31, 2008, we will require substantial additional funds for further research and development, planned clinical trials and regulatory approvals. Our planned cash requirements may vary materially in response to a number of factors, including research and development on our products, clinical trial results, changes in any aspect of the regulatory process, and delays in obtaining regulatory approvals. We may seek further funding through public or private equity or debt financings, collaborative arrangements with pharmaceutical companies or from other sources. Further equity financings may substantially dilute shareholders' investment in our shares. If we cannot obtain the required additional funding, then investors will not be able to recoup their investment or to profit from their investment.

Since we rely substantially on our ability to patent our intellectual property or maintain our proprietary information as trade secrets in developing our products, our success will depend on our ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties or preventing third parties from circumventing our rights. As described below, there is considerable uncertainty about our intellectual property rights. If we are unsuccessful in establishing the validity of our intellectual property rights, we will likely fail as a company and our securities will be worthless.

The steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary information and technologies. We have filed and are actively pursuing applications for U.S., Canadian and foreign patents. The patent positions of biotechnology and pharmaceutical companies can be highly uncertain and involve complex legal and factual questions. We are uncertain whether:

- any of our patent applications will result in the issuance of patents;
- we will develop additional proprietary products that are patentable;
- any patents issued to us or those that already have been issued will provide us with any competitive advantages;
- we will be challenged by third parties on the validity of our patents;
- the patents of others will impede our ability to do business;
- third parties will be able to circumvent our patents;
- third parties will independently develop similar products that will not infringe our products;
- third parties will duplicate any of our products not covered by a patent; or
- third parties will design around our patents.

A number of pharmaceutical and biotechnology companies and research and academic institutions have developed technologies, filed patent applications or received patents on various technologies that may be related to or affect our business. Some of these technologies, applications or patents may conflict with our technologies or patent applications. Such conflict could limit the scope of the patents, if any, that we may be able to obtain or result in the denial of our patent applications. In addition, if patents that cover our activities are issued to other companies, we might not be able to obtain licenses to these patents at a reasonable cost or be able to develop or obtain alternative technology. If such licenses are not obtained, we could encounter delays in the introduction of products or find that the development, manufacture or sale of products requiring such licenses could be prohibited. There is a substantial amount of litigation over patent and other intellectual property rights in the pharmaceutical industry generally.

Infringement and other intellectual property claims, with or without merit, can be expensive and time-consuming to litigate and would divert resources from our core business. If we are faced with challenges or litigation, we might not have the financial resources to defend our rights.

Since patent applications in the United States are maintained in secrecy until the patent is issued or foreign counterparts, if any, published and, since publication of discoveries in the scientific or patent literature often lag behind actual discoveries, we do not know if there are currently pending applications that would result in issued patents that would interfere with our products. Moreover, we might have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention, which could result in substantial cost to us, even if the eventual outcome is favourable to us.

Much of our know-how and technology might not be patentable. To protect our rights, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. However, these agreements might not provide meaningful protection for trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure.

We intend to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of our products. We will not have control over how they perform their contractual obligations. Accordingly, we will suffer if they do not fulfill their contractual obligations.

We may enter into corporate agreements to develop and commercialize product candidates. We might not be able to establish such additional collaborations on favourable terms, if at all, or guarantee that our current or future collaborative arrangements will be successful. In addition, third party arrangements may require us to grant certain rights to third parties, including exclusive marketing rights to one or more products, or may have other terms that are burdensome to us.

These arrangements may place responsibility on our collaborative partners for Phase III clinical trials, human clinical trials, the preparation and submission of applications for regulatory approval, or for marketing, sales and distribution support for product commercialization. These third parties might not fulfill their obligations in a manner which maximizes our revenues. These arrangements may also require us to transfer certain material rights or issue equity securities to corporate investors, licensees and others. If we license or sublicense our commercial rights to others, as we intend to do, we might realize reduced product revenue compared to our direct commercial exploitation. Moreover, we might not derive any revenue or profit from these arrangements. In addition, our current strategic arrangements might not continue. Collaborators might also pursue alternative technologies or drug candidates, either on their own or in collaboration with others, and compete directly with us.

In addition, we have no direct experience in marketing, sales or distribution, and we do not intend to develop a sales and marketing infrastructure to commercialize pharmaceutical products. If we develop products eligible for commercial sales, we intend to rely on third parties such as licensees, collaborators, joint venture partners or independent distributors to market and sell these products. We might not be able to obtain access to a marketing and sales force with sufficient technical expertise and distribution capability. We also will not be able to control the resources and effort that a third party will devote to marketing our product candidates. If we are unable to develop and maintain relationships with third parties with the necessary marketing and sales force, we may fail to gain market acceptance of our product candidates, and our revenues could be impaired.

We are dependent on Dr. Hassan Salari and the loss of his services will adversely impact the achievement of our objectives.

Dr. Hassan Salari has the scientific knowledge and research expertise in the field of chemokines and cytokines on which we depend for direction in developing our drug candidates. Dr. Salari has the reputation and respect required in the scientific and business community that we need in order to attract investors, customers, joint ventures, and strategic partners. If we were to lose his services, the probability of achieving our business and scientific objectives would be severely diminished.

We must manage our growth effectively in order to keep pace with the market and with customer demand. If we are unable to do so, we will fail.

This growth might place significant strains on our management, financial position, sales and other employees and on our internal systems and controls. If we are unable to effectively manage our growth, our business, financial condition and results of operations will be materially and adversely affected.

Since Dr. Hassan Salari is indirectly a large beneficial shareholder and has significant influence over our business and affairs, the election of our directors and the outcome of most corporate actions requiring shareholder approval, shareholders will have diminished influence on our management and our business decisions.

Dr. Hassan Salari is, indirectly, a significant shareholder, President and Chief Executive Officer. Dr. Salari's family currently is the beneficial owner of 6,247,101 common shares held by Pacific Medical Corp., which represents approximately 14.8% of our voting common shares. Consequently, Dr. Salari has significant influence over our business and affairs, the election of our directors and over determining the outcome of most corporate actions requiring shareholder approval, including any merger, acquisition, consolidation or sale of all or substantially all of our assets. If he makes inappropriate decisions, our shareholders will suffer a decline in the value of their shares.

Our common shares are listed on the Toronto Stock Exchange and not on any U.S. exchange.

Our common stock is listed on the Toronto Stock Exchange (TSX) and not on any exchange in the United States. Accordingly, investors in the United States may find it more difficult to buy and sell shares than if our common shares were traded in the United States. Furthermore, we do not currently meet the listing standards for the NASDAQ stock exchange, the New York Stock Exchange and the American Stock Exchange and do not know when or if we will ever meet such listing standards. Accordingly our common shares might have less liquidity than if our common shares were listed on such exchanges. Although our common shares have been approved for inclusion on the OTC Bulletin Board, the securities have been thinly traded, and there can be no assurance that a more fluid trading market for the securities will develop or that, if developed, it will be sustained. The OTC Bulletin Board is an unorganized, inter-dealer, over-the-counter market which provides significantly less liquidity than the NASDAQ Stock Market, and quotes for stocks included on the OTC Bulletin Board are not listed in the financial sections of newspapers as are those for the NASDAQ Stock Market. Therefore, prices for securities traded solely on the OTC Bulletin Board may be difficult to obtain and purchasers of our shares may be unable to resell the securities at or near their original price or at any price. Although we are listed in Mergent's Manuals and our shares qualify for secondary trading in numerous states in the United States, only a limited trading market has yet developed as a result of such listing and qualifications. We are uncertain whether a robust trading market in our shares will develop in the United States.

Penny stock regulations of the SEC may impose certain restrictions on marketability of our shares. Accordingly, investors might not be able to sell their shares as easily or for the price that would be available to them if these restrictions did not apply.

The Securities and Exchange Commission has adopted regulations which generally define a "penny stock" to be any equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. As a result, additional sales practice requirements apply to United States broker-dealers who sell our securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 together with their spouse). For transactions covered by such rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. These rules require, among other things, that a broker engaging in a transaction in our securities provide its customers with:

- a standardized risk disclosure document;
- current quotations or similar price information;

- disclosure of the amount of compensation or other remuneration received by the broker and its sales persons as a result of the penny stock transactions; and
- monthly account statements.

As a result of these additional sales practice and disclosure requirements, fewer broker/dealers may be willing to make a market in our common shares. Consequently, investors may be unable to resell their common shares in the United States.

Overhang of common shares issuable upon the exercise of warrants and the sale of common shares by the selling shareholders could depress our stock price. The potential future sale of large amounts of common shares might depress the market price of our common shares. The common shares that might be sold in the future were issued in a series of private transactions.

Our registration statements that became effective on December 17, 2004, and on April 22, 2005, and the registration statement which was filed on April 21, 2006, and effective as of May 8, 2006, covers the offer and sale from time to time of the common shares issued to the investors in a Regulation S offering and in private offerings and the common shares to be issued upon the exercise of the warrants for the purchase of common shares issued to the investors in the Regulation S offering and the private offerings. The maximum number of common shares that may be resold by these investors or selling shareholders pursuant to the registration statement is 1,255,000 common shares directly owned. The warrant holders may exercise and resell such common shares at anytime and in compliance with the then applicable laws and regulations.

Such sales of our common shares and warrants by the selling shareholders, and by other existing shareholders, or the perception that those sales may occur, could cause the trading price of our stock to decrease or to be lower than it might be in the absence of those sales or perceptions.

Our stock price is likely to be volatile and could drop unexpectedly. As a result, we might be subject to lawsuits.

Our common shares have been publicly traded only since December 2004. We only have 42,183,748 common shares outstanding as of the date of this quarterly report, and our common stock is thinly traded. For example, in the five business days prior to November 8, 2006, the average daily trading volume of our common stock was 11,220 on the Toronto Stock Exchange and 13,520 on the OTCBB. The market price of our common stock could become subject to significant fluctuations. The stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices of securities, particularly securities of technology companies. As a result, the market price of our common stock may materially decline, regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation of this type is often expensive and diverts management's attention and resources.

Special note regarding forward-looking statements

This quarterly report contains forward-looking statements that reflect our current views with respect to future events and financial performance. In some cases, shareholders' can identify forward-looking statements by words like "believe", "expect", "estimate", "anticipate", "intend", "project", "plan", "may", "should", "potential" and "continue".

- These forward-looking statements include, among other things, statements relating to:
- our anticipated business strategies;
- our pending and anticipated clinical trials;
- our intention to introduce new product candidates;
- our relationships with third parties, including manufacturers, clinical research organizations, collaborative partners, contract sales organizations and suppliers;
- anticipated trends in our business;
- sufficiency of resources to fund operating and capital requirements;
- operating cash burn rates;
- future capital expenditures; and
- our ability to conduct clinical trials and obtain regulatory approval.

The forward-looking statements included in this quarterly report are subject to risks, uncertainties and assumptions about us. Our actual results of operations may differ materially from the forward-looking statements as a result of, among other things, the success or failure of our clinical trials, the speed at which our clinical trials progress, the success of our competitors in developing products equal or superior to ours and the timing of their development of such products, the success of our collaborative relationships and the other reasons described under "Risk Factors". Except for our ongoing obligations to disclose material information under applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this quarterly report might not occur.

ITEM 3. CONTROL AND PROCEDURES

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2006 (the "Evaluation Date"). We conducted our evaluation under the supervision and with the participation of our Chief Executive Officer ("CEO"), who is also functioning as the Chief Financial Officer ("CFO"). Based upon such evaluation, our CEO and CFO have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective. There have been no changes in our internal controls that have materially affected or are reasonably likely to materially affect these controls over financial reporting subsequent to the date of their most recent evaluation.

PART II

ITEM 1. LEGAL PROCEEDINGS

We are not party to any pending litigation and, to the best of our knowledge, no litigation against us is contemplated or threatened.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBIT INDEX

Exhibit Number	Description	Page Numbe Filing Metho
3.1	Articles of Incorporation	(1)
3.2	Amendment to Articles of Incorporation	(6)
3.3	Bylaws	(1)
3.4	Amendment to Bylaws	(6)
4.1	See Exhibits 3.1, 3.2, 3.3 and 3.4	
10.1	License Agreement between Chemokine Therapeutics Corp. and University of British Columbia dated September 22, 1999	(1)
10.2	Development Agreement, dated January 1, 2003, between Chemokine Therapeutics Corp. and Globe Laboratories Inc.	(1)
10.3	Employment Agreement dated April 1, 2004, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Dr. Hassan Salari	(1)
10.4	Employment Agreement dated April 1, 2004, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Walter Korz	(1)
10.5	Employment Agreement dated May 14, 2004, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and David Karp	(1)
10.6	Escrow Agreement between Chemokine Therapeutics Corp., Pacific Corporate Trust Company and Pacific Medical Corp.	(4)
10.7	2004 Warrant Agreement between Pharmaceutical Product Development, Inc. and Chemokine Therapeutics Corp. dated September 14, 2004	(2)
10.8	Amendment to Employment Agreement dated with Dr. Hassan between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Dr. Hassan Salari	(2)
10.9	Lease Agreement dated January 1, 2003, between Salari Enterprises Ltd. and Chemokine Therapeutics Corp.	(3)
10.10	Form of Warrant Agreement for investors in May 6, 2004, Regulation S offering	(3)
10.11	Agent Warrant Agreement for warrants issuable to agents upon closing of our offering pursuant to this registration statement	(4)

10.12	The 2004 Stock Option Plan	(2)
10.13	Amended Employment Agreement dated March 10, 2005, between Dr. Hassan Salari, our CEO, and President, and Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp.	(5)
10.14	Amended Employment Agreement dated March 10, 2005, between David Karp, our former Chief Financial Officer and Corporate Secretary, and Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp.	(5)
10.15	Preferred Stock and License Restructuring Agreement dated April 12, 2006, between Pharmaceutical Product Development, Inc. and us.	(6)
10.06	Letter agreement dated April 12, 2005, by and between the University of British Columbia and us, amending the License Agreement between us dated September 22, 1999.	(6)
10.17	Executive Services Agreement dated June 28, 2006, between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (B.C.) Corp. and Dr. Guy Ely, N.D. Life Sciences Corp.	(7)
10.18	Termination of the amended employment agreement between Chemokine Therapeutics Corp. jointly with Chemokine Therapeutics (BC) Corp. and David Karp, our former Chief Financial Officer and Corporate Secretary	
31.1	Section 302 Certification of Chief Executive Officer	
31.2	Section 302 Certification of Chief Financial Officer	
32	Certification Pursuant to U.S.C. 18 Section 1350	

(1) Previously filed on Registration Statement on Form SB-2 (Reg. No. 333-117858) on August 2, 2004.
(2) Previously filed on Amendment No. 1 to Registration Statement on Form SB-2 (Reg. No. 333-117858) on October 20, 2004.
(3) Previously filed on Amendment No. 2 to Registration Statement on Form SB-2 (Reg. No. 333-117858) on November 26, 2004.
(4) Previously filed on Amendment No. 3 to Registration Statement on Form SB-2 (Reg. No. 333-117858) on December 17, 2004.
(5) Previously filed on Form 10-KSB on March 15, 2005.
(6) Previously filed on Registration Statement on Form SB-2A (Reg. No. 333-133476) on April 24, 2006.
(7) Previously filed on Form 10-QSB on August 10, 2006.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHEMOKINE THERAPEUTICS CORP.

Dated: November 10, 2006

/s/ Hassan Salari
Hassan Salari,
Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hassan Salari, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB for the quarter ended September 30, 2006, of Chemokine Therapeutics Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Paragraph omitted pursuant to SEC Release Nos. 33-8545 and 34-51293]

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2006

/s/ Hassan Salari

Hassan Salari
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hassan Salari, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB for the quarter ended September 30, 2006, of Chemokine Therapeutics Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Paragraph omitted pursuant to SEC Release Nos. 33-8545 and 34-51293]

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2006

/s/ Hassan Salari
Hassan Salari
Chief Financial Officer

Exhibit 32

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Hassan Salari, President and Chief Executive Officer of Chemokine Therapeutics Corp. (the **"**Company**"**), certify, pursuant to 18 U.S.C. **§** 1350, as adopted pursuant to **§** 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report of the Company on Form 10-QSB for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission (the **"**Report**"**), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Hassan Salari
Hassan Salari
President and Chief Executive Officer

November 10, 2006

I, Hassan Salari, Chief Financial Officer of Chemokine Therapeutics Corp. (the **"**Company**"**), certify, pursuant to 18 U.S.C. **§** 1350, as adopted pursuant to **§** 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report of the Company on Form 10-QSB for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission (the **"**Report**"**), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Hassan Salari
Hassan Salari
Chief Financial Officer

November 10, 2006